Massachusetts Department of Revenue *Division of Local Services*
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City of Gloucester

Financial Management Review

Municipal Data Management and Technical Assistance Bureau

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INTRODUCTION

At the request of the Mayor, the Department of Revenue's Division of Local Services (DLS) has completed a financial management review of the City of Gloucester.

We have based our findings and recommendations on site visits by a Technical Assistance team consisting of staff from the Division's Bureau of Accounts, Bureau of Local Assessment, and Municipal Data Management & Technical Assistance Bureau. During these visits and by telephone, the team interviewed and received information from the mayor and his administrative assistant, members of the city council, the city auditor and city clerk, treasurer/collector, assessors, public works director, personnel director, payroll supervisor, purchasing agent, information technology staff and outside consultant as well as other staff members, as available, in each office.

DLS staff examined such documents as the tax recapitulation sheet, warrants, annual budgets, balance sheets, cash reconciliation reports, statements of indebtedness, city charter and ordinances, city council procedures as well as other assorted financial records. Internal memoranda and other materials were also provided to us by the city.

In reviewing the city's financial management practices, we have focused on: (1) city government structure in the context of the duties and responsibilities of financial officers; (2) the city's budget and capital planning processes; (3) the degree of coordination and communication that exists between and among boards, officials and staff involved in the financial management function; and 4) the general efficiency of financial operations measured by the city's success in maximizing resources and minimizing costs.

We encourage the Mayor and others, when formulating overall strategies for improving the city's financial management, to consider the observations, analyses and recommendations contained in this report. These are recommendations only and can be implemented, at the city's option, provided there is sufficient cooperation among the various city boards, committees and officials.

EXECUTIVE SUMMARY

General - Unlike other major northeast cities which have been forced to abandoned their traditional economic basis in favor of new commercial directions, Gloucester has held steadfast and preserved its legacy as an historic fishing community. Today, the inner harbor has the status of a "designated port," which protects the operation of its waterfront uses and perpetuates the city's traditional industry. It is estimated that even with the imposition of catch limits and depletion of the fleets, for every fisherman on the water, there are six-to-seven fishing-dependent jobs on the mainland. These characteristics, together with continuous stretches of river and ocean frontage, impressively erratic topography and near geographic isolation, seem to resist change and create appeal, but also sit as barriers as the city looks to move forward.

From a broader perspective, the city's situation is not static, but is captive of evolving circumstances that are likely to foster the reshaping of its future. A prolonged period of economic prosperity in the region and advances in remote communications have, for many, increased financial capabilities, eliminated locational constraints and expanded lifestyle choices. Whether an infusion to the numbers who only summer here or who seek permanent residence, Gloucester is, as coined to us, "being discovered." The fabric of the city may now be more diverse in terms of demographics, economy, personal wealth and cultural interests than at any time since its settlement.

The changes taking place are quantified by U. S. Census Bureau data and Department of Revenue statistics. From 1990 to 2000, the city's year-round population increased only a modest 5.4 percent, or by 1,550 people. However, among residents, education levels are now higher - 45.0 percent fewer students drop out of high school and 38.0 percent more people have college and advanced degrees. Over the last decade, the number of persons with professional occupations increased 42.5 percent, while jobs in the fishing industry declined 25-30 percent. In 1990, only 26.6 percent of households had combined incomes greater than $50,000, compared with 47.6 percent in 2000.

The median value of a single family, owner-occupied home was a respectable $204,600 in 2000, but the number of homes valued in excess of $300,000 more than doubled since 1990. The average single family tax bill in Gloucester rose 83 percent between 1990 and 2002 to $3,646 which ranks 69th among 334 reporting communities. Total city expenditures increased 92.6 percent in the last ten years. The city's equalized valuation (EQV), which is a measure of relative community wealth based on property values ranked 87th per capita in 1994 among cities and towns, but increased 87.3 percent according to 2002 preliminary estimates and jumped to 40th in rank. Between 2000 and the 2002, only 19 of 351 communities experienced a higher percentage increase in EQV than Gloucester, and among 128 communities with revaluations in 2002, only eight realized a higher percentage increase.

While property value-related indicators were increasing 83-93 percent over ten-to-twelve years, the corresponding change in the median household income in Gloucester was only a 46.0 percent gain by comparison- increasing from $32,690 to $47,722.

These numbers underscore what is universally recognized in Gloucester: overall property values have been riding a steep upward curve, and despite gains, incomes have not kept pace. As a result, Gloucester emerges as a community which tends to be property rich and cash poor. Because many cherry sheet distribution formulas use EQV to distribute funds, these circumstances direct lower state-aid to the city in comparison to other major Massachusetts cities. In Gloucester, state aid represented 17.7 percent of the city's total revenues in FY02, while the average for all communities was 28.1 percent, and the average for 45 cities was 37.6 percent.

With less state aid, the city is pressured to generate revenues through other sources and forced, in particular, to increasingly rely on the residential tax levy. Ten years ago, commercial, industrial and personal property accounted for 18.6 percent of the taxes raised. In FY02, even with tax classification and despite measurable new development, the tax contribution of commercial and industrial properties has declined to 13.4 percent of the total levy. In short, residential property values have risen faster and more dramatically than commercial and industrial values which places the burden of financing local government programs and services, at least for the immediate future, squarely on the people who live here.

Operating under these circumstances places an equal and corresponding burden on local government to manage well and spend wisely. In this regard, the administration of the city's new mayor, with staff support and the conscientious effort of the city council, is off to a good start.

The most visible and demanding of government responsibilities - budget approval - began as it should with consensus agreement between the mayor and city council, acting through the administrative assistant and the auditor respectively, on revenue projections for the upcoming fiscal year. New to this year, the process began with a determination of the goals and objectives of each department. Difficult budget decisions followed and ultimately resulted in an appropriation package that reflected the priorities of both the mayor and city council. (With the subsequent passage of the state budget and an unexpected reduction in state aid, the process is likely to be tested again).

It is our observation that the process worked well and sets a standard for the future, both in terms of depth of budget analysis and cooperation between the mayor's office and city council. Our recommendations suggest changes in format to the budget and back-up documentation in ways that clarify the presentation of information. However, in its overall financial management, we encourage the city decision-makers to project more into the future as they complete their fiscal analyses, and to incorporate long-range goals into the budget process.

One area that demands a long-term view is debt management. Best seen through the treasurer's debt schedules, total outstanding debt at the end of FY02 exceeded $129.3 million and required annual debt service payments of $9.3 million. Depending on the Standard and Poor's (S&P) rating criteria applied, Gloucester's debt position can be viewed as healthy or as an area of concern. Annual debt service as a percent of expenditures was 14.9 percent in FY02 which is at the high end of the S&P recommended range of 5-10 percent. Debt per capita was $4,273, compared to the recommended high end of $2,500. However, outstanding debt was 3.7 percent of the city's total assessed value which was at the low end of the S&P rating range. More importantly, since 1996, Gloucester has built its credit rating from Baa1 to A1, suggesting that other rating criteria are at work in a positive way for the city, like strong property values.

In addition to debt schedules, there are other instances of forward-looking initiatives. Sewer extension and downtown street restoration projects are ongoing, while industrial park expansion is on the table. An open space plan was developed in 1998 and as was the harbor plan in 1999. Though not recently funded, a capital improvement plan is developed each year. The <u>Community Development Plan for the City of Gloucester,2001: A Comprehensive Plan</u> developed with substantial citizen input and adopted by the Planning Board in 2001 stands as a useful guide to measuring public sentiment on the future of the city. And, discussions should continue on inner harbor land development options and flexibility under Ch. 91 and "designated port" restrictions. To compliment these efforts and to help marshal financial resources, our recommendations address long-term revenue and expenditure forecasting, as well as policies to guide the use of free cash, allocate debt, fund capital improvements and build reserves.

Beyond the budget and planning process, experienced department managers and knowledgeable support staff throughout city government appear to have a firm grasp on what is required to accomplish municipal business on a day-to-day basis. Taxes get collected and deposited, warrants get approved and bills get paid on a routine basis. Cash books and control records are maintained, reconciliations of cash and receivables are regularly completed.

Following the flow of information between and among departments caused us to consider the city's atypical government structure where the auditor is elected by and accountable to the city council, while all other finance officers are appointed by and report to the mayor. We are satisfied, for now, that the structure works sufficiently well to support the smooth operation of government and sustains internal checks and balances. Accordingly, we make no recommendations in this regard, but uniform accountability among all finance officers to the mayor might be an appropriate topic when the next regular, charter revision is planned.

With few exceptions, issues we raise involving the various finance offices address matters or procedures specific to each department or office. The resulting recommendations are intended to improve operations, correct minor deficiencies and create efficiencies. However, on a more global basis, the city faces major decisions in how it will deal with financial management software and computer hardware issues. The use of technology, or lack thereof, are topics that arise in almost every city department.

In this regard, recent city council approval of an administration plan to reorganize the management information systems department represents a meaningful step forward in advancing the technology capabilities of the city. As a separate department headed by a director, short term needs and long-term goals can be more clearly defined. The status of computer systems can be more closely monitored, and cross-department problems can be more effectively articulated and targeted for correction. The new department would also assume an essential role should the city decide to upgrade its financial management software, or to pursue a conversion to a new vendor and software package. We also endorse the goals outlined in the City and Schools Systems Integration Project report which was completed by an outside consultant. The ability of the school department and city hall finance offices to exchange information electronically would represent a major accomplishment toward more efficient operations and is worth pursuing.

Conclusion - The obstacles facing the city of Gloucester are not uncommon among Massachusetts communities. During economic upswings and downturns, local government and the people its serves have always confronted alternating cycles of expansion and contraction, of opportunity and constraint. And, so it is today.

At any of these times, the challenge if not the obligation of a sitting government is to engage in practices, to adopt policies and to establish a structure that provide an underpinning for stability and a foundation for public trust that will endure as elected officials, departments, boards and commissions change. This requires difficult decisions that invariably focus on how to balance limited resources between current day operational needs and the beginnings of a long-term plan aimed at building reserves, controlling debt and funding capital improvements. For most communities, decision-makers have little choice but to look inward to seek out cost savings from more efficient ways to conduct city business. For all communities, forward movement requires a consensus on what combination of technological advances, staff realignments and program priorities best protect essential services and secure the city's future.

Gloucester has taken positive steps toward these goals. In rare combination, the mayor, the city council president and its members, and the school committee and its administrators, have early-on established areas of common ground where they can act as partners in government rather than adversaries. In doing so, they have opened a path toward more responsive, productive government. Although the precedent is not yet tested and hurdles remain, there appears to be growing optimism that with a commitment to stay this course, the prospects for a unique period of accomplishment in government are at hand.

A summary of our recommendations are listed on the next page followed by a more comprehensive discussion of our observations, opinions and conclusions.

SUMMARY OF PRIMARY REPORT RECOMMENDATIONS

Overall Financial Management:

1) Adopt long range revenue and expenditure forecasting. [page 7]
2) Avoid free cash certification updates. [page 7]
3) Commit to a capital improvement program. [page 8]
4) Formalize debt and reserve policies. [page 8]
5) Change administrative assistant job title. [page 9]
6) Modify budget format/presentation of back-up data. [page 9]
7) Consider four year term for mayor. [page 10]

Technology:

1) Shift accountability of MIS office to mayor. [page 13]
2) Create a permanent technology committee. [page 13]
3) Plan for continued staff training. [page 14]

Auditor:

1) Specify indirect costs and betterment revenue in enterprise fund. [page 16]
2) Create a bridge between ADP and Data National software. [page 17]
3) Attach net pay detail to payroll warrant. [page 17]
4) Review authorizations for special revenue funds. [page 17]
5) Prepare for GASB 34 implementation. [page 18]

Treasurer/collector:

1) Redirect departmental turnovers. [page 20]
2) Re-examine lock box service. [page 20]
3) Enhance public view of office professionalism. [page 21]
4) Discontinue organizing cancelled checks. [page 21]
5) Reformat debt service schedules. [page 21]

Assessors:

1) Mail income and expense surveys annually. [page 24]
2) Consider adopting new growth changes. [page 25]
3) Raise office proficiencies. [page 26]

Other:

1) Review parking ticket collection procedures. [page 27]
2) Establish procurement policy. [page 28]
3) Support personnel director's recommendations. [page 28]
4) Transfer timesheets electronically. [page 29]
5) Explore adjustment to employee pay period. [page 29]
6) Consider further beach revenue security. [page 30]

OVERALL FINANCIAL MANAGEMENT

A review of the city's overall financial management practices focuses on the procedures in place to accomplish tasks that typically cross over among various municipal departments, and that tend to impact city government on a global basis. Accordingly, we examined the budget process and the payroll and vendor warrant processes. We looked at long-term planning, financial monitoring practices and financial policies, as well as the effect of the city's organizational structure on the operation of government. We examined the purchasing system and personnel/benefits related functions. We considered the level of communication and cooperation that exists among offices. Finally, we reviewed the city's compliance with state law relating to finance issues and its adherence to timetables for the submission of periodic reports to DOR.

We initially noted that executive powers are solely vested in the mayor, the execution of which he may delegate to others under his general supervision. With few exceptions, the mayor may delegate any power or duty he has under the charter to an administrative assistant who also has specific, wide-ranging duties. Among other responsibilities, the administrative assistant is charged with the preparation and administration of the annual operating budget, supervision of all city agencies, maintenance of financial management and record keeping systems, a centralized purchasing system, and the day-to-day administration of personnel ordinances, regulations and collective bargaining agreements.

Fulfilling his budgetary role, the mayor's administrative assistant first met in January with the auditor, who reports to the city council, to develop revenue projections. Based on consensus revenue expectations, budget guidelines were distributed to department heads who returned appropriation requests with back-up documentation in various form which accompanied the mayor's budget proposal to the city council. Following a comprehensive review by the council committee on budget and finance, and later by the full council, the city budget was approved by the start of the fiscal year on July 1. Though shadowed by uncertainty surrounding state aid, the recent budget process was generally viewed as well orchestrated and productive.

Outside the budget process, experienced managers and strong staff support ensure that vendor and payroll warrants are prepared and approved on an alternating week schedule. Technology issues cause inefficiencies, but generally, communication and the flow of (hardcopy) information between payroll office, purchasing office, auditor and other city departments is adequate. The mayor meets regularly with department managers, but communication between the mayor's office and the auditor is reported to be an ad hoc basis. He also has weekly informal meetings with the city council president and as a matter of policy is accessible to city council members.

Bureau of Accounts (BOA) and Bureau of Local Assessment (BLA) records suggest that reports requiring input from multiple finance officers are effectively coordinated. The city's tax recapitulation sheet, year-end balance sheet and Schedule A have, in recent years, been completed and submitted on a timely basis.

Where we would encourage the mayor to act, and to solicit council support, is in the formulation of financial policies. It is here where the interest of government can be advanced. When well crafted, adopted, implemented and committed to, policy statements relating to revenue forecasts, free cash and other reserves, debt and capital improvements can help guide and stabilize local government over time and through the economic swings.

RECOMMENDATION 1: CHANGE THE JOB TITLE OF THE ADMINISTRATIVE ASSISTANT

We recommend a change in the job title of the administrative assistant to one more appropriate to the responsibilities of the position. The responsibilities of the administrative assistant to the mayor are enumerated in the city charter. They are wide ranging, comprehensive and reflect a job description more closely associated with chief administrative officer or chief operating officer. While a change in job title is not intended to enhance authority or serve as a reward, it can convey the true standing of the office holder to act on behalf of the mayor and to resolve the issues, concerns and problems that are otherwise brought to city hall. When future mayors recruit to fill the position, a title that more accurately reflects the job will increase the prospects of attracting the most qualified candidates.

RECOMMENDATION 2: LONG-RANGE REVENUE AND EXPENDITURE FORECASTING

We recommend that the administrative assistant to the mayor, working with the auditor, develop and annually update a five-year revenue/expenditure forecast. At the start and then continuing through the most recent budget cycle, the administrative assistant to the mayor worked closely with the auditor to arrive at revenue projections for the upcoming fiscal year. Like this annual process, long-range forecasting contributes in a significant way to helping the city determine whether it should look to reduce, level fund or expand services. Revenue and expenditure forecasting also works hand-in-hand with capital planning and debt management in developing a strong fiscal blueprint for the city. We suggest the administrative assistant and the auditor begin their meetings earlier in the fiscal year, confer with department heads, and the personnel director in particular, on future financial events, analyze trends and expand their revenue and expenditure projections over five years. Presentation of the projections to the mayor by the administrative assistant and to the city council by the auditor would ensure that both are operating within the same framework when considering the city's annual budget and financial outlook. These forecasts can also be instrumental in establishing the city's financial capacity to support long-term financial commitments, such as, proposed union contracts presented during collective bargaining negotiations.

RECOMMENDATION 3: AVOID FREE CASH CERTIFICATION UPDATES

We recommend that the city resist applying to DOR for a mid-year adjustment to its free cash certification. With the close of the fiscal year on June 30, a community completes its balance sheet and submits it to DOR for certification of free cash. Until certified, free cash is not available for appropriation and use. Once during every year, communities are also permitted to seek an adjustment to their original free cash certification, which Gloucester did in FY01. Adjustments allow use of current year receipts to update the prior July 1 fee cash number. Although the city gained access to an additional $417,310 in that year, as a matter of sound financial practice, we discourage this course of action. A mid-year adjustment is nothing more than an advance on the subsequent year's free cash. By raiding a future funding source, the city merely delays difficult budgetary decisions and runs the risk of exacerbating fiscal problems.

Communities generally use free cash in one of three ways. As a matter of policy, some appropriate it for use in the same year it becomes available, while others use free cash as a revenue source for the subsequent year's budget. A combination also occurs, but the least typical, and least prudent practice involves seeking adjustments to free cash for current year use. In any event, the city should always avoid using free cash for operations or other recurring expenses.

RECOMMENDATION 4: COMMIT TO A CAPITAL IMPROVEMENT PROGRAM

<u>We recommend the city formulate and commit to a long-term capital improvement program</u>. In accordance with city ordinances, a seven member capital improvement committee has in recent years, met annually with department heads, prioritized capital needs, prepared and presented a capital improvement plan to the mayor. However, as in many communities, when faced with budget constraints, priorities tend to shift away from funding capital improvements.

Although he increased capital outlays in the FY03 budget, we encourage the mayor to place a priority on funding capital improvements in accordance with a policy that addresses general, as well as water/sewer and school infrastructure needs. A minimal policy statement would commit to a recurring funding source, or expenditure level, for capital improvements which many communities base on a percentage of total prior year receipts, a percentage of total proposed budget for capital outlays and/or debt service, or a fixed amount that changes annually with budget guidelines. Alternatively, as debt service declines over time, as it is projected to do in Gloucester, the city could issue new debt so as to maintain annual debt service at a constant level. A policy would also direct the formulation and review of a five year plan. Policies would set out which projects qualify for bonding (i.e., threshold dollar amount and useful life) and which are to be accomplished through direct capital outlay.

RECOMMENDATION 5: FORMALIZE DEBT AND RESERVE POLICIES

<u>We recommend that the mayor formalize a policy that establishes guidelines for funding and maintaining reserves</u>. In recent history, the city has done well in maintaining its stabilization fund and the auditor has created sewer betterment funds to ensure that money is available to cover debt service payments on sewer projects. Since 1997, free cash has averaged 2 percent of the annual budget which is slightly lower than recommended levels. To help establish and ensure the continuation of sound practices, the mayor should consider provisions of a reserve policy that, among other things,

1) Identify target levels for the stabilization fund, free cash and other reserves in a total dollar amount or as a percentage of the total annual budget.

2) Direct the use of excess free cash, that is, the amount that exceeds the free cash target level, as a funding source for stabilization or one-time capital projects. Use revenue from a recurring income source for the same purpose. Otherwise, develop a schedule of escalating annual appropriations to reach target funding levels for reserves gradually over time.

3) Direct the use of unexpected, non-recurring revenue sources, i.e., if the city were to adopt the accelerated new growth option (See Assessing section);

4) Restrict the use of the stabilization fund to non-recurring expenditures and in an amount above a certain dollar threshold. Set similar guidelines on use of free cash.

5) Establish guidelines for the use of surplus revenue which is available after reserves are funded, i.e., restrict its use to non-recurring expenditures, to tax levy relief, etc.

<u>We recommend that the mayor establish a debt policy that guides future borrowing decisions and works to preserve the city's credit rating</u>. An effective debt policy should provide guidelines that, among other considerations:

-Specify purposes for which long and short-term borrowing will be permitted;
-Set goals for the average maturity (i.e., less than ten years) of long-term debt;
-Set limits on the debt service payments as a percent of operating revenues (less debt exclusions, enterprise fund revenues, free cash, grants, transfers and non-recurring revenues);
-Dedicate special assessment or betterment revenues to support long term debt.

In considering factors that influence the city's credit rating and are within control of city management, recognize that rating agencies (Moody's, Standard & Poor's, Fitch Investment Services) consider the following:

-Revenue forecasting and a community's ability to anticipate future events;
-Interim financial reporting and monitoring;
-Contingency planning policies (reserves);
-Policies on the use of non-recurring revenues;
-Debt management policies; and
-Capital planning.

RECOMMENDATION 6: MODIFY THE BUDGET FORMAT AND PRESENTATION OF BACK-UP DATA

<u>We recommend that the mayor's budget document be reformatted to include an additional column to record city council action</u>. Under current procedure, the clerk of committees attends all city council and committee budget meetings, takes written minutes, and otherwise makes

notations that document city council action on the mayor's appropriation request. The notes serve as a basis for completing the final budget document which is ultimately certified by the city clerk. They are also reconciled with the auditor's written notes before the assistant auditor keys-in the new appropriations into the Data National general ledger software. If modified to include an additional column, the budget format would allow notations at the appropriate line-item in the budget document itself which would bring greater clarity to the action taken, reduce the risk of error and facilitate the reconciliation process. Further, if the entries that record council votes were made directly into the computer application or budget spreadsheet, particularly at the committee level, a working and final document could be immediately produced and made ready for certification by the city clerk.

We recommend format changes to the budget document entitled "Line Item Justifications and Organizational Charts." To make the Line Item Justifications and Organizational Charts a more readable and informative document , we recommend that it 1) structurally and visually resemble the budget document; 2) be presented entirely in vertical or portrait view; 3) provide departmental information in a consistent format with comparable information; and 4) clarify the break between department information (i.e., use the same tab separations as in the budget).

RECOMMENDATION 7: CONSIDER FOUR YEAR TERM FOR MAYOR

We recommend the city consider increasing the current term of office for a mayor from two to four years. A two year term for an executive officer tends to work counter to the effective implementation of long range financial strategies and goals. Often, acceptance of a new policy and the final form it takes may only be accomplished over time and after adjustment through a series of budget cycles. Even when the term of a mayor continues through re-election, the administration of the city's business suffers as a portion his or her time and attention is invariably directed to concerns outside of city hall. Notwithstanding the argument that a two year term allows voters to more rapidly reject an office holder, we counter that a true measure of performance and of the benefits derived from continuity in government policies and practices are best achieved over four years.

With nine city councilors, length of term is not as much a threat to year-to-year continuity as is the risk of a large turnover because all nine seats are up for re-election every two years. However, a plan to stagger city council terms (i.e., three members elected each year for three year terms; or at-large one year, ward councilors another) would likely require a city-wide vote each year. At a current cost of $11,000-$13,000 per election, any incremental expense to add a city-wide vote in state-election years may not be an attractive option now, but staggering the terms of city councilors should be considered when the city charter is next scheduled for review. In either event, changes in the office terms would be accomplished through a home rule petition to the legislature under MGL Ch. 43B.

TECHNOLOGY AND DATA PROCESSING

By the late 1980s, the city of Gloucester's technology history took root when it became an early, if not the first, user of the Data National financial management software. An initial complement of 30 or so stand-alone computers increased by 50 in 1991 and terminals in two offices were connected to form self-contained local area networks. With the infusion of $640,000 in 1999 from the city's free cash account, the system was upgraded with the purchase of two, unix-based file servers, network equipment and 130 new computer terminals to replace the old.

Now, three years later, the city's network connects approximately 180 computers operating under Windows NT. With the private donation of Lotus Smartsuite to the city a year ago, offices have access to spreadsheet (Lotus), word processing and database (Approach) applications. Vision appraisal software is utilized in the assessor's office and ADP payroll software, as well as various modules offered in Data National's financial management package, are also in use by finance offices. All city offices also have email capability and access to the internet.

Until recently, the system and software were maintained by a management information systems (MIS) staff of two who operated out of a first floor office and under the supervision of the treasurer/collector. Under a plan approved by the city council in July, the office is now managed by a director, who continues to report to the treasurer/collector, and two full time staff, one of whom splits his time between the city and the schools. The office staff monitor systems, provide network and software support, and install hardware and software upgrades. As they assist city hall office workers in the use of computer applications, it's expected that more formal training sessions will be periodically arranged by the personnel department as in the past.

In addition to its support function, the office prints 13,000 real estate bills and 2,000 personal property bills quarterly; 10,000 utility bills four times each year; 800 boat excise bills annually, and about 2,000 demand bills each year. It produces seven different financial reports each month and oversees the regular back-up and storage of system files.

As the three-year anniversary of the last major computer upgrade approaches and as file servers are near their capacity, the city has begun an assessment of its technology status and its needs for the future. The process has been advanced by a "Systems Integration Study" completed by an outside consultant and funded jointly from city and school budgets. Intended to detect more efficient means of coordinating data transfer activity between the city and school accounting systems, the study examined current procedures in overlapping finance areas involving general accounting practices, payroll, purchasing, accounts payable and benefits.

In a strongly worded report, the consultant, who has since been appointed director of the reorganized MIS office, presented an analysis of the city's Data National financial software and the older Unifund software utilized by the school department. Areas of concern were identified, potential improvements noted, opinions were rendered and recommendations were made.

Among other comments, the report expressed concern about Data National's lagging capabilities with respect to data transfer, alluded to its lack of flexibility compared to current cutting edge financial management packages, and whether there is enough corporate strength to close the gap with updated software versions. It repeatedly pointed out instances where a duplication of effort exists due to software incompatibility. Rather than seamlessly transfer information between the Data National, Unifund and ADP applications, data must be re-keyed by different office staff.

An ad hoc committee comprised of the treasurer/collector, auditor, purchasing agent, payroll clerk, and school MIS director has begun its review of the report conclusions and will eventually present its own recommendations for action to the mayor, city council and school department.

<u>Conclusion</u> - Without a commitment to continued capital investment, with an MIS staff consumed with "putting out brush fires" and without a department head who can devote full or substantial attention to computer-related issues, the city's technology program has been stagnant over the last three years. Now, as the city approaches critical computer and software questions which will have wide-ranging implications, it has taken a decisive step toward determining the role of technology in its future by reorganizing the office and establishing director level responsibilities. It must now set-up the mechanism for collecting and analyzing information on current technologies, and support the leadership structure it has created in order to move forward.

The work of the ad hoc technology committee, and the "Systems Integration Study" it has begun to review, represent important initial steps. The study has taken a comprehensive look at the city's technology status as it investigated wide ranging computer and software related issues. Its recommendations to gain greater efficiencies are sweeping. We strongly endorse the goals set-out in the study as not only worthwhile, but as an essential direction for any community.

However, it is not the role of DLS in the preparation of this report, or otherwise, to recommend or endorse one software developer or its product over any other. Should the city determine that complete abandonment of Data National in favor of an alternative software is in its best interest, we would offer the following observations: *A decision to switch will involve a major capital investment for software and training, as well as for the possible purchase of new equipment. There will be potential data conversion issues, a cost associated with inevitable departmental downtime and frustrations associated with a steep learning curve. Finally, decision makers must be satisfied that the in-house resources exist to shepherd the city through the conversion process and that, thereafter, new vendors can provide timely, effective and on-going support service*.

Therefore, we underscore the "study" recommendation that, as part of the software selection process, city officials contact their counterparts in other communities which have some experience with any software under consideration. Company sale demonstrations are almost always impressive, but real insight into the capability and performance of software is best gained through the observations of real-life users.

RECOMMENDATION 1: SHIFT ACCOUNTABILITY OF THE MIS OFFICE TO THE MAYOR

We recommend that the city shift accountability of the MIS department from the treasurer/collector to the mayor's office. With recent changes, the MIS office has become an advocate whose sole, day-to-day focus is immediate and long-term technology issues. While the MIS staff have historically reported to the treasurer/collector, the same arrangement for the office director may not be appropriate or most productive.

The demands of running a major city department and functioning as CFO are not insignificant and can place limitations on the time and attention the treasurer/collector can devote to other causes. At the same time, technology issues have global ramifications in government that tend to fall outside the purview of individual finance officers, or even a CFO, and are more appropriately located under the wider perspective of the mayor's office. General responsibility to direct the MIS office and consult with the MIS director would logically fall to the mayor's administrative assistant.

RECOMMENDATION 2: CREATE A PERMANENT TECHNOLOGY COMMITTEE

We recommend the city form a permanent technology committee. The city currently has an ad hoc technology committee at work reviewing the conclusions and recommendations of the Systems Integration Study. We recommend the creation of a permanent technology committee.

A technology committee can be a meaningful and objective contributor of information, analysis and insight for the decision-makers as they grapple with computer and software issues. A technology committee can also serve as a resource for the MIS director and staff as they consider ways to enhance the city's computer capabilities. Its members can work with the MIS department to produce a periodic report, or assessment, of the city's technology status. Such a report would serve as a useful tool to evaluate the performance of hardware and software in city departments, to identify and prioritize the need for upgrades, and to recommend the adoption of new technologies. The recommendations made or accepted from the report would then be incorporated into a long term capital planning program.

A technology committee might comprise only three or four members who have appropriate knowledge or work experience. The city might recruit members from the general population, but the committee could also be a mix of residents and city officials. Absent other charter provisions, the mayor would appoint the committee members subject to city council approval.

RECOMMENDATION 3: PLAN FOR CONTINUED STAFF TRAINING

We recommend the MIS office emphasize ongoing training for staff. Perceived lack of interest on the part of city hall staff or time constraints on the MIS staff should not discourage the perpetuation of an on-going software training program. The MIS office should occasionally informally survey city hall personnel relative to comfort and proficiency levels in available software. Department heads might also be encouraged to consider ways in which technology might improve operations, realign staff duties and gain efficiencies. From this information appropriate level training and refresher courses can be developed. With additional training, the number of requests to attend to small problems is likely to decline, freeing up MIS staff time for other important tasks. Input from managers and staff is also a key aspect of any overall decision on computer systems and whether those being considered fulfill the needs of the various departments as they look into the future.

AUDITOR

The auditor is one of two positions in city government which is elected by the city council - in this case to a two year term - and one of only two departments that is funded through the city council budget. Consequently, when he interacts with the mayor, administrative assistant to the mayor, and with the finance officers who are appointed by and report to the mayor, the auditor is accountable instead to the city council.

The current auditor has held his position since 1985 and manages a staff of three who themselves have more than 39 years of combined city service. Among the staff, the delineation of responsibilities is clear. A full-time assistant auditor maintains the general ledger, one of two principal accounting clerks processes payroll and vendor warrants for the city, while the other performs the same function for the schools. A part-time clerk with general duties was also hired recently.

The Gloucester auditor oversees the day-to-day operation of the office and routinely monitors the debt and on-going fiscal activity of city departments. He reviews revenue and expenditure reports and, as required by the city code of ordinances, makes them available to city council members (as well as to the mayor's office). He is available to and functions as advisor on all financial matters to the city council which relies on his input and presence regularly, but most heavily during the annual budget process. Throughout this past budget cycle, he also worked closely with the mayor's office to develop and refine revenue projections.

The office functions well in the preparation of payroll and vendor warrants. However, in the instance of the payroll, there is dependence on back-up data provided by ADP, an outside payroll service, but which is typically received from the city payroll office. Because of incompatibilities between the ADP software and the city's Data National software, manual coding and keying-in of data is necessary. When the payroll warrant is presented to the mayor and auditor for approval, it includes payroll information in gross, and total amounts due for withholdings, but no listing of employees' net pay. Vendor warrants are prepared generally pursuant to purchase orders which are also received by the office in hard copy with back-up documentation. More manual re-keying is required to get the information into the Data National system so that a vendor warrant can be produced.

The assistant auditor relies on Data National in the maintenance of the city's general ledger and despite certain software idiosyncrasies, he is satisfied with its performance. Still, manual data entry is necessary to incorporate final budget appropriations, as approved by the city council, into the Data National general ledger module.

In other areas of office responsibility, the auditor and treasurer/collector's staff communicate on a monthly basis to reconcile cash and receivables. However, reconciliation of the city's debt schedules appears to occur less frequently. The auditor's contribution to the annual tax recapitulation sheet appears to be timely, as is his preparation and submission of the city's year-end balance sheet to DOR. Complicating the city's financial statements, however, are 17 water and sewer related betterment projects which have prompted the creation of separate funds to receive betterment payments. It appears that they are set-up outside the enterprise funds that exist for water, sewer and waterways operations. We noted, as well, reference to unspecified special revenue funds, a health receipts fund, revolving funds and capital improvement funds in back-up information submitted with the city's 2002 Recap Sheet.

Conclusion - The auditor and his staff are experienced in municipal finance and are effective in carrying out the requisite duties and responsibilities of the office. As is the case in other finance offices, data transfer issues present obstacles to greater efficiencies and certain housekeeping matters warrant on-going attention.

RECOMMENDATION 1: SPECIFY INDIRECT COSTS AND BETTERMENT REVENUE IN ENTERPRISE FUND ACCOUNTING

We recommend that indirect costs be specifically identified as an expense of the enterprise. One of the primary purposes of setting up an enterprise fund is to gain a clear picture of the costs to provide a particular service and a clear indication whether or not user fees are sufficient to cover those costs. Accordingly, the dollar value placed on the time that city employees expend on enterprise business is a real and legitimate cost to the enterprise, but under present practice indirect costs are not being reported.

Therefore, we recommend that the administrative assistant to the mayor survey city departments to determine what amount of staff time is devoted to water, sewer and waterways enterprise business. He and the city auditor should then meet and agree on a basis, or formula, for placing value on the time (including benefits) expended which may vary from department to department, and person to person. The total value of all city employees' time should be reported as an indirect cost on each respective Form A-2 which is submitted annually with the city's Recap Sheet. These costs should, in turn, be recovered through user fees or other funds available to the particular enterprise.

We recommend that transfers from sewer betterment funds to the sewer enterprise fund be reported as a revenue source on page one of Form A-2. The city auditor has established a series of sewer betterment funds, (including the so-called "Phase 4 & 5 Stabilization" fund) to receive payments from residents who live in areas where sewer improvement projects have been completed. On the city's Recap sheet, transfers are made from the established funds to the sewer enterprise fund in amounts necessary to pay the annual debt service on project costs. The amounts appears as part of a general fund subsidy on the A-2 form and on the B-2 form as a source of funds available to the enterprise.

We suggest instead that the sewer betterment funds be regarded as created within the sewer enterprise fund which requires no special authorization to accomplish. Amounts to be expended for annual debt service payments should be reported on Form A, page 1, "Other enterprise available funds" and not as "Non-Enterprise Available Funds" on page 2. No corresponding entries need be reported on the B-2 form. In this way, a more accurate picture of enterprise activities is displayed.

Finally, if the Phase 4 & 5 stabilization fund actually operates as another sewer betterment fund or as an enterprise reserve, it should be appropriately identified, or closed. Stabilization funds are only allowed pursuant to MGL Ch. 40, §5B, and are not permitted within enterprise funds.

RECOMMENDATION 2: CREATE A BRIDGE BETWEEN ADP AND DATA NATIONAL SOFTWARE

We recommend that the auditor's office work with the MIS Office to explore and implement a means to electronically transfer payroll data from ADP software to the city's Data National software. With this capability, manual re-keying of bi-weekly payroll information by staff can be eliminated. A wider range of payroll information can be transferred into the Data National system, allowing greater flexibility and comprehensiveness in the production of reports and analyses. The same flexibility should be pursued relative to the manual re-keying of purchase order information in the office.

RECOMMENDATION 3: ATTACH NET PAY DETAIL TO PAYROLL WARRANT

We recommend that the auditor include as detail to the payroll warrant net pay due each employee. The treasurer is permitted under statute to make payments, including the issuance of payroll checks, only as authorized by warrant. Absent sufficient detail showing net pay amounts due to each employee (i.e., after adjustments for withholdings), the treasurer cannot issue individual pay checks. To satisfy this requirement, a warrant can identify amounts for gross pay, each withholding category and net pay in the aggregate, as long as detail is attached listing each employee's name, gross pay and net pay.

If ADP can generate and provide a report with the required information in the requested format, this would suffice. If ADP cannot provide this information in a report, a staff member may be forced to manually key-in the additional data necessary to produce a Data National report. A better alternative would be the transfer of all payroll information from ADP to Data National through the creation and implementation of an electronic bridge. Once in Data National, a report can be produced, perhaps by the payroll department using ReportSmith software.

RECOMMENDATION 4: REVIEW AUTHORIZATIONS FOR SPECIAL REVENUE FUNDS

We recommend that the auditor verify authorizations to create and maintain various special revenue, capital project and revolving funds. General statutory authorization or the approval of special legislation are typically required in order to segregate general fund money for specific purposes. Some revolving funds also require annual reauthorization by the city council to continue intact. As a routine practice, we encourage communities to review authorizations and where lacking to take corrective action or close out the particularly fund.

RECOMMENDATION 5: PREPARE FOR GASB 34 IMPLEMENTATION

We recommend that the auditor outline to the city council and to the mayor, what action has been taken to bring the city into compliance with GASB 34. As a so-called "tier two" community, the city must begin implementation of the provisions of GASB 34 in FY03. Although much of the required new procedures are accounting-related, other departments are typically involved in developing an inventory of fixed assets which is a large part of the up-front preparation. The auditor should coordinate other departments in this regard, report on progress made as well as identify potential costs to complete the project.

TREASURER/COLLECTOR

The treasurer/collector is a combined position appointed by the Mayor. The current treasurer/collector has served the city for almost nine years; two years in her current position and previously as administrative assistant to the prior mayor. Also appointed chief financial officer for the city, she oversees the staff and operation of the MIS office, parking clerk and payroll office. The treasurer's staff includes an assistant treasurer/collector, a senior accounting clerk and a bookkeeper; while the collector's staff includes a principal collector, a senior accounting clerk, and three additional accounting clerks. All are full-time employees.

On the collector's side, the office receives and posts payments to the computer system. The office is responsible for collecting approximately 15,000 real and personal property tax bills and 10,000 combined water and sewer bills quarterly. Annually, the office collects approximately 41,000 motor vehicle excise bills and 800 boat excise bills. With the exception of motor vehicle excise, all bills are printed in the MIS office, then sent to an outside vendor to stuff and mail. The collector uses the services of a deputy collector to process its motor vehicle bills and pursue delinquents. The deputy collector also pursues boat excise delinquents if demand notices do not result in payment. The collector's office regularly runs refund reports, researches all refunds, reconciles receivables and prepares municipal lien certificates. When a real estate bill becomes past due the office is diligent in issuing demand notices and establishing tax title accounts.

On the treasurer's side, the office receives departmental turnovers, as well as other payments to the city, and ensures that deposits are made daily and that the treasurer's schedule of receipts is turned over to the auditor on a regular basis. A cash book and debt schedules are maintained allowing the treasurer and staff to monitor the city's cash standing and manage the investment, disbursement and borrowing of cash. Staff reconcile cash internally to monthly bank statements and externally with the city auditor, but reconcile debt on a less frequent basis. The staff also fulfill responsibilities to pursue tax titles and are effective in following-up with phone calls and letters to delinquent property owners informing them of future actions. At present, tax title accounts number about 300.

The treasurer/collector's office staff use Data National software to process their work and Lotus spreadsheets for the receivables control record, the cash book and debt schedules. Until recently, the office had been using the service of a lock box to collect real estate bills. However, due to budget constraints, the service was eliminated. At the same time, the office was assigned responsibility for selling beach parking stickers to city residents and reserved one counter window solely for this purpose from 9:00 a.m. until 2:00 p.m. each day. The unexpected high volume of sales has created impatient crowds in city hall, exacerbated parking problems and frequently kept staff away from their day to day duties.

In addition to collections in the office, money is received at various other city departments and then turned-over to the collector, rather than the treasurer (i.e., beach parking, parking ticket, parking meter receipts, etc.). The collector subsequently turns the receipts over to the treasurer. Due to the amount of other over-the-counter collections throughout the city, sometimes in large amounts of cash, the treasurer/collector recently instituted a cash receipts security policy. All cash must now be locked in a strong box and the box must be locked in a file cabinet. When departmental receipts reach $100, the cash must be turned over to the treasurer's office for deposit.

Conclusion – The treasurer/collector's office is fully staffed with knowledgeable personnel who provide strong support as they work under clearly delineated responsibilities. While the combined physical space is sufficient in size, its organization and overall appearance are probably below desirable standards for a high visibility office in city hall. Our recommendations address a number of issues including the practice of departments turning cash over to the collector rather than to the treasurer. Further, we encourage a re-examination of the lock box service in the context of overall city technology goals and we also suggest that officials consider the physical condition of the collector's office and the sense of professionalism it conveys..

RECOMMENDATION 1: REDIRECT DEPARTMENTAL REVENUE TURNOVERS

We recommend that all departmental receipts be turned over to the treasurer as required by MGL Ch. 44 §53. During the course of our review, it was noted that some departments are collecting cash (i.e., beach parking receipts) and turning it over to the collector, who then turns it over to the treasurer. Although as a city collector, the office can receive over-the-counter payment of any city receipts, this authority is not intended to include receiving monies already collected by other departments. MGL Ch. 44 §53 directs that all revenue received by any municipal official or department be turned-over directly to the treasurer, not to the collector. Present practice creates an additional step and unnecessary work for collector's staff, which if corrected, would impose no greater burden on the treasurer's staff.

RECOMMENDATION 2: RE-EXAMINE THE LOCKBOX SERVICE

We recommend that the city re-examine the contributions of the lock box service. While we understand the factors underlying the decision to terminate the lock box service, the city's action runs counter to the movement by most other communities toward increased automation. The lock box service, administered by a financial institution, receives tax and/or other payments, deposits checks and returns daily receipt reports, typically on disk, to the city during the billing cycle. The collector's staff upload the information from the disk to its accounts receivable software to post the payments. If lock box use is actively promoted, over-the-counter and mail payments should decline, automatic posting of payments should increase and staff time should be freed-up. Decision-makers should weigh the tradeoffs and assess the potential role of the lock box service in the context of long term personnel plans and system-wide technology upgrades.

RECOMMENDATION 3: ENHANCE THE PUBLIC'S VIEW OF OFFICE PROFESSIONALISM

We recommend that the storage shelves in the treasurer/collector's office be replaced with a locking file cabinet. Public confidence in government is influenced by contact with the city's most visible offices (i.e., the collector's office, the clerks office, the assessor's office, etc.). What residents see and how they are treated often gets converted into a measurement of how well their tax dollars are being spent. With this in mind and with a critical eye, department heads should each examine the physical condition of their space, office lay-out, as well as staff interaction with the public. They should look for ways to improve service, organization and the visual appeal of space to make any visit a positive one for taxpayers and to enhance a sense of professionalism.

In the collector's office, the lack of storage appears to be a particular issue. Contributing to the problem are 12 large and unsecured bins that are labeled by month and overflow with paid property tax bills in manila envelopes. If a more efficient storage system for paid bills were created, additional space might result. A review of essential records and staff needs, given individual responsibilities, might also reveal alternative ways to organize the office and better serve the public.

RECOMMENDATION 4: DISCONTINUE ORGANIZING CANCELED CHECKS

We recommend the treasurer's staff discontinue placing cancelled checks in numerical order. At the end of each month, a senior account clerk spends hours placing cancelled city checks in numerical order by week to facilitate searches by staff during the year or by the outside auditor at year-end. Since, according to the assistant treasurer/collector, searches are not often required, it is likely that more time is spent organizing checks than would be spent on searches if the cancelled checks were only grouped by month. Inquiries about the availability of electronic records might also be directed to the banks where vendor and payroll accounts are maintained. In any event, the office already maintains an electronic check register which represents an immediately accessible source of information.

RECOMMENDATION 5: REFORMAT DEBT SERVICE SCHEDULES

We recommend that the treasurer/collector simplify her debt service schedules for distribution. The treasurer/collector currently maintains very detailed and complex debt service schedules for her own use on Lotus spreadsheets and prints copies with less information for distribution as requested. The schedules extend 20 years into the future, incorporate proofs that reconcile different versions and otherwise display specific information relative to each borrowing. To simplify printed charts and more clearly display trends, we suggest that information displayed be stacked so that the format is two lines per project and one column per year.

We suggest that the treasurer/collector consider the purposes different users have for debt schedules and give them no more information than what they need or request. For instance, auditors are generally most interested in initial dates and bond amounts authorized, unissued and balances as of June 30. Total debt service and terms might be of greater interest to the mayor's administrative assistant, while the treasurer/collector herself might have more use of monthly cash outlays to assist in borrowing and investment decisions.

We recommend the treasurer/collector create a cash flow budget which summarizes major city expenditures by month. Used in tandem with monthly revenue and expenditure estimates, this information can be a valuable tool in forecasting the cash flow needs of the city through the course of the year.

Finally, given the complexity of Gloucester's debt situation, due in part to numerous betterment borrowings, we recommend the treasurer/collector, or one of her staff, meet once monthly with the auditor to reconcile debt.

ASSESSING

The Gloucester assessors serve as a full-time board active in the day-to-day management and operation of the office. A principal assessor, who functions as the department head, and the two board members are appointed by the mayor for three year terms with city council approval. Staff support includes an assistant assessor and principal clerk, who serve full-time as well as a part-time senior assessing clerk. With the passage of the FY03 budget, the hours of an additional part-time junior clerk position, which is currently vacant, were decreased approximately 40 percent.

Following a period of persistent turnover in personnel, the office appears to have gained some stability beginning about a year ago when virtually the entire staff stepped-up in responsibilities. With 12 years of experience in the office, the principal assessor was appointed. Another assessor has five years in the department, first serving on staff as the assistant assessor/data collector and then for the last three years as a board member. The third assessor followed a similar path and has been on the board one and a half years. In addition, two assessors are licensed real estate appraisers and bring a combined 30 years in residential appraisal experience to the department. The current assistant assessor moved up from principal clerk, and among other responsibilities, is in training to serve as a data collector.

The assessing function primarily involves placing values on approximately 15,000 real and personal property parcels within the city for tax purposes. The office commits excise taxes for over 41,000 motor vehicle and 800 boat accounts, maintains maps and property records, and processes abatement and exemption applications. It also tracks the apportionment of costs to property owners that arise from 17 separate betterment projects. Though cases tend to be few and only three are currently pending, board members represent the city before the Appellate Tax Board.

As a routine function, the assessors send sale surveys to new owners, then inspect and analyze a large portion of the 400 properties per year which are the subject of a real estate transfer. The data collected serves as the basis of annual property value adjustments and triennial revaluations. To help support commercial and industrial values, income and expense surveys are sent every three years to landlords and owner-occupants, but the response rate, estimated at 15 percent, is low. Most of the 1,000 properties or so which receive building permits are also inspected and provide a foundation for new growth estimates. With changes in personnel and shifts in responsibilities, inspections conducted as part of the cyclical "measure and list" program had slowed. However, the office is back on schedule to complete the on-going, nine-year program by FY05.

The office relies primarily on Vision Appraisal Software to maintain property files and generate a real estate commitment list. As is common in most municipalities, the commitment is converted by the MIS department from the appraisal software (Vision) to a format compatible with the city's financial management software (Data National), so that the information can be electronically transferred to and used by the collector. The assessors also contract with Vision, on a consultant basis, for assistance in the analysis of sales data and market trends that, in turn, determine whether and to what extent property values will be adjusted each year. In FY01, $35,000 was expended for revaluation services indicating a reliance on Vision services in setting commercial and industrial property values. As an additional in-house resource, staff have access to a Vision-developed Geographical Information System (GIS) which has broad capability and is used primarily to extract individual parcel data.

Conclusion - In recent years, the Gloucester Assessing Office has received high marks from the DLS Bureau of Local Assessment. We concur here in our report. The office is well organized and responsibilities are clearly delineated among the three board members. The assessors receive strong support from staff who understand their respective roles, and who appear capable of and interested in performing at a high level. Cross training is evident and all requisite duties of the office are accounted for and generally completed on a timely basis.

With changes in personnel and reallocation of duties over the last 12-to-18 months, office personnel are still acclimating to new responsibilities and are, in some instances, in a training mode. As a by-product of the transition, the assessors have had cause to examine many office procedures with the goal of creating efficiencies. Our recommendations, though few in number, are intended to advance that process.

RECOMMENDATION 1: MAIL INCOME AND EXPENSE SURVEYS ANNUALLY

We recommend that the Assessors mail income and expense surveys annually. Income and expense information returned by commercial and industrial property owners is essential data for annual property valuation adjustments and in the triennial revaluation years. To help increase the survey response rate from landlords and owner-occupants, we suggest that the assessors mail surveys every year, rather than every three years. If business people see the survey more frequently, and see evidence that confidentiality is honored, they may become more comfortable with the process and more disposed to respond. Toward this end, the assessors might also explore collaborations with the Gloucester Chamber of Commerce, commercial and industrial real estate brokers and appraisers, and other local business associations to educate and more effectively approach property owners to gather market data.

We suggest the assessors edit the cover letter presently used by placing greater emphasis on how the data is used, on the importance of reliable information and on the procedures imposed to ensure confidentiality of the information submitted. The letter should underscore how an inaccurate assessment and an inequitable tax distribution can result for property owners in the absence of good data.

Finally, we suggest that the assessors prioritize income and expense data by property type or location, etc., and develop a program to follow-up initial mailings. For instance, information from investment properties might be more useful than from those that are owner-occupied. Or, a greater effort might be directed at the CBD retail market than at smaller, outlying pockets of commercial uses. Recognizing that resources are constrained, a follow-up program might target particular neighborhoods, property types, or other classifications established in accordance with priorities. The nature of the follow-up might include a smaller, second mailing with a return receipt attached or with a self-addressed return envelop, a telephone call as a reminder to respond, and/or an on-site visit to interview landlords or tenants.

RECOMMENDATION 2: CONSIDER ADOPTING ACCELERATED NEW GROWTH OPTIONS

We recommend that the assessors consider adopting MGL Ch. 59 §2A(a), a local option statute effecting new growth revenues. This statute allows a community to shift the 12 month period within which new growth is identified from the prior calendar year to the last completed fiscal year immediately preceding submission of the Recap Sheet to DOR. The ramifications of this shift are as follows:

> -By shifting the assessment date from January 1 to June 30, the city each year realizes the revenue gain from new growth, which occurred during this six month period, a full year earlier than otherwise. In terms of equity, the property owner is neither free from contributing his fair share of taxes, nor in case of disaster, burdened by an unfair tax for the 12-to-18 months it currently takes new growth revenue to hit the books. Assessors may also adjust the preliminary tax notices before their July 1 issuance to address dramatic changes in property condition.
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> -In the year the shift is implemented, the city captures an additional six months of new growth revenue. The period would begin January 1 and end 18 months later on June 30. Thereafter, the twelve month new growth period would run from July 1 to June 30. This represents a potential, one-time revenue gain of $250,000-$400,000 to the city based on new growth figures for the last five years. This represents the type of non-recurring money that might, under a new policy statement, be directed to reserves.
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> -Assessors currently schedule property inspections in May and June for building permits which were issued during the prior calendar year. If Ch. 59 §2A(a) is adopted, the inspection period may have to extend at least into July to account for 18 months of permits in the transition period. In subsequent years, the target period for inspections may shift to June through July.

RECOMMENDATION 3: RAISE PROFICIENCIES WITHIN THE ASSESSING DEPARTMENT

We recommend that the assessors continue to increase proficiencies. The assessing experience, real estate knowledge and residential appraisal background among board members contribute in a significant way to the level of accomplishment and professionalism within the office. For these same reasons, the assessors should look to achieve more. Toward this end, we can envision individual board members developing greater expertise in specific areas of assessing practice.

An example is to become more familiar with and proficient in the use of the Vision GIS system. The GIS system allows the same property factors and information that can be extracted on an individual parcel basis to be viewed city-wide. This and other capabilities can be useful analytical tools for the office as it seeks to establish fair assessed values. In another example, an assessor might seek to increase his or her knowledge of commercial and industrial appraisal techniques and, in the process, help the department to become less reliant on outside vendors. At the very least, assessors would be better prepared to review, probe and help direct the market presumptions and valuation conclusions of the revaluation contractor.

OTHER MUNICIPAL FUNCTIONS

Parking Tickets - When a person receives a parking ticket in Gloucester, he has the option of making payment at city hall or mailing it to the address of the city's collection agency, Municipal Management Associates (MMA) in Marlborough, Massachusetts. If paid within 21 days, there is no penalty. After 21 days, MMA sends out a demand notice and penalties accrue. Eventually, MMA will notify the Registry of Motor Vehicles to mark a license if tickets continue in delinquency.

The city employs a full-time parking clerk who works out of a booth in city hall and collects delinquent and non-delinquent parking ticket payments over-the-counter. At the end of the day, all cash collected is given to the treasurer in exchange for a city check in an equal amount. The city check and all other checks collected by the clerk during the day are then mailed to MMA in Marlborough. Generally, MMA returns deposit slips as evidence that the city's collections have been deposited in a designated bank account. MMA also forwards a monthly statement, reporting information on collections for the past 30 days and on the balance of uncollected tickets.

RECOMMENDATION 1: REVIEW PARKING TICKET PROCEDURES

We recommend that parking ticket receipts be turned over the to treasurer daily. MGL Ch. 44 §53 directs that, unless otherwise specified by law, all monies received by a city officer, board or department be paid over to the municipal treasury. Accordingly, the parking clerk is obligated to turnover parking ticket receipts to the treasurer, and conversely, is not permitted to mail those receipts to a third party collection agency. The treasurer should explore with MMA how best to accomplish the necessary exchange of any other information.

We also recommend that the city seek clarification whether it is charged a service fee for tickets issued when non-delinquent payments are made at city hall and no money is sent to MMA for processing.

Finally, we recommend the treasurer cease to issue municipal checks in exchange for cash received from the parking clerk. As noted, all cash received by a municipal employee must be turned-over to the treasurer and deposited in a city account. With limited exception and "in exchange for cash" not being one of them, the treasurer has no authority to issue a municipal check outside the warrant process.

Procurement - As a result of sewer related procurement problems in the late 1990s, the mayor set up a procurement task force which examined the process and issued a report in 2000. A new purchasing agent was brought-in and now, using a Data National software module, administers the city's requisition and purchase order system with assistance of two full-time staff. With few exceptions, all purchases by city and school departments are made through the system. However, according to the purchasing agent, there are instances when the process is ignored. Four persons are authorized to generate a purchase order on line, while all other department heads fill out requests manually, duplicates of which are transferred between finance offices in hard copy. As required, the purchasing agent maintains a central register of vendors, and on his initiative, has organized in-house training sessions for staff, and made progress in the development of a web-based procurement system.

RECOMMENDATION 2: ESTABLISH PROCUREMENT POLICY

<u>We recommend that the purchasing agent consider setting a dollar threshold under which requisitions and purchase orders are not required, and otherwise enforce procurement policy</u>. As a practical matter, a policy that allows purchases, i.e., up to $100, $250 or $500, without a requisition technically eliminates any unauthorized spending for relatively small items. Checks and balances would remain intact as the auditor would still complete the internal verification process before payment is approved through the warrant.

At the same time, the purchasing agent should consistently enforce the purchasing rules. He should forward written notification to all department heads, and vendors listed on the central register that no payment for goods or services will be made unless a purchase order is secured in advance. The mayor should consider whether to sign the notification as well.

<u>Personnel</u> - The personnel department is managed by a director, who has been in the position since 1993, a personnel assistant and a benefits coordinator, all of whom are full-time. Among wide-ranging responsibilities, the office maintains all personnel records, oversees employee recruitment, administers benefits programs and manages all worker's compensation cases. The personnel director collaborates on revenue projections, participates in collective bargaining negotiations, and evaluates performance reviews (when they are conducted). She otherwise counsels the mayor and city department heads on all personnel matters.

On examination of the Personnel Budget Review, prepared by the director, its clear she has a grasp of the personnel issues facing the city. Her recommendations include insightful budget cuts, consolidation of school and city payroll and personnel services, and a change in reporting structure by shifting the payroll office from the treasurer/collector to the personnel office.

RECOMMENDATION 3: SUPPORT PERSONNEL DIRECTOR'S RECOMMENDATIONS

<u>We endorse the personnel director's recommendations to consolidate school and city payroll and personnel functions and to reposition the payroll office</u>. It is more often the case than not that cooperation, communication and systems integration between a community's school department and its finance-related offices could improve. Therefore, as a rule, we view any plan to merge or otherwise consolidate school and city functions as a positive step toward more effective and efficient in government. We also view the underlying logic for organizationally

aligning the payroll office with the personnel office as compelling and support that recommendation put forth by the personnel director.

Payroll - The city's payroll department is managed by a full-time payroll supervisor and payroll clerk who administer the distribution of employee compensation checks on a bi-weekly basis. The office receives employee time-sheets at the beginning of the two week pay period and manually enters the data into the software provided by ADP, the city's outside payroll service. Any data that moves between the payroll office, auditor and schools must be re-keyed at each stop because ADP and Data National are not compatible. The office produces overtime reports for review by department heads and then transmits the entire information file by modem to ADP. ADP processes the data, adjusts for withholdings, then prints and returns electronically signed employee checks for distribution on every other Friday, which is the last day of the pay period. ADP also forwards written reports summarizing pay period totals, including withholding totals that are placed on the warrant. Because time-sheets are completed in advance, with "estimates" of the hours worked, taken for vacation, sick time, etc., making corrections and changes is an ongoing office task. Any corrections are applied to the following week's employee check.

RECOMMENDATION 4: ELECTRONIC TRANSFER OF TIME SHEETS

We recommend that the payroll office reconsider receiving time sheet data electronically from department heads rather than in hardcopy. We understand the payroll office completes an important verification process when it works off of time sheets delivered in hard copy. However, if the capability exists, the office should take advantage of electronic transfer of data between offices, particularly if wider benefits can be gained. We encourage the payroll office to examine more closely how the verification process might be satisfactorily completed using available software.

RECOMMENDATION 5: EMPLOYEE PAY PERIOD ADJUSTMENT

We recommend that the payroll office open discussion of an employee pay period adjustment. When submitted, employee time sheets reflect only a best guess as to hours worked because they are completed ten days prior to the close of the pay period. Consequently, the payroll office is continually making corrections in retrospect to account for the actual circumstances. This creates an enormous amount of extra work for the payroll office and amplifies the prospects for error. Recognizing that any adjustment to an employee pay period is a contract issue, we encourage the payroll supervisor to raise the issue with the administrative assistant to the mayor and the personnel director to discuss options before collective bargaining sessions are initiated.

<u>Beach Revenue</u> - Beach parking revenues are a significant municipal revenue source which is likely to exceed $1 million this year. However, because the process involves a substantial amount of cash collections at three beach locations in a parking stub-for-cash transaction, efforts to improve security, and protect employees manning the gates, have been ongoing. Recently, the treasurer/collector instituted new procedures that require twice daily accounting and deposit of beach parking receipts, frequent transfers from the cash drawer to a safe, completion of a "reconciliation control sheet, and verifications by beach wardens. Deposits slips are thereafter turned-over to the collector's office.

RECOMMENDATION 6: BEACH REVENUE SECURITY

<u>We recommend that the city explore further options to account for collections at public beaches</u>. The treasurer/collector's new guidelines for beach revenue accounting represent a vast improvement over prior procedures, but should not preclude the city from exploring other, complimentary options. The next level of control might involve an "in and out" gate system that electronically tracks resident stickers, guest vouchers and cash payments on a daily basis. With anticipated receipts in excess of $1 million per year, we would view this, or some other similar, option as a minor, one-time expense and a worthwhile investment to gain peoples' confidence that the city is doing all it can to protect and account for beach collections.

ACKNOWLEDGEMENTS

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